



WILLIAM T FUJIOKA  
Chief Executive Officer

## County of Los Angeles CHIEF EXECUTIVE OFFICE

Kenneth Hahn Hall of Administration  
500 West Temple Street, Room 713, Los Angeles, California 90012  
(213) 974-1101  
<http://ceo.lacounty.gov>

September 25, 2009

To: Supervisor Don Knabe, Chairman  
Supervisor Gloria Molina  
Supervisor Mark Ridley-Thomas  
Supervisor Zev Yaroslavsky  
Supervisor Michael D. Antonovich

From: William T Fujioka  
Chief Executive Officer

Board of Supervisors  
GLORIA MOLINA  
First District

MARK RIDLEY-THOMAS  
Second District

ZEV YAROSLAVSKY  
Third District

DON KNABE  
Fourth District

MICHAEL D. ANTONOVICH  
Fifth District

### COMMISSION ON THE 21<sup>ST</sup> CENTURY ECONOMY (ITEM NO. 64, AGENDA OF SEPTEMBER 29, 2009)

On September 15, 2009, on motion of Supervisor Ridley-Thomas and Knabe, your Board directed this Office to review, analyze and report back to the Board at its meeting of September 29, 2009 on the proposals made by the State Commission on the 21<sup>st</sup> Century Economy and their potential impact, if any, on the County's:

- Revenue;
- Operations, including implications on vendors, contractors, and service providers;
- Employees; and
- Business climate, especially as it relates to job creation, attraction and retention; small business development and sustainability; and imposition, elimination, reduction, or increase of tax expenditures (i.e., tax credits, exclusion, exceptions, etc.) on various sectors.

As of this date, the Commission has not issued its final report. Based on information available, including draft material available on the Commission's Website, we have provided some initial background and comments below. We will continue to monitor these recommendations and keep your Board apprised. Should any Commission recommendations become legislation, we will advocate the County's position based on Board policy and/or make specific recommendations to your Board.

#### Background

On July 29, 2009, Governor Schwarzenegger signed Executive Order S-15-09 mandating that the bipartisan Commission on the 21<sup>st</sup> Century Economy re-examine and modernize California's out-of-date revenue laws that contribute to "feast-or-famine" State budget cycles.

The Commission is comprised of 14 members; seven appointed by the Governor, and seven appointed by the Legislature.

*"To Enrich Lives Through Effective And Caring Service"*

**Please Conserve Paper – This Document and Copies are Two-Sided  
Intra-County Correspondence Sent Electronically Only**

Applying the principles outlined in Governor Schwarzenegger's Executive Order, the Commission is charged with recommending changes to State and local revenues that will result in a revenue stream that is more stable and reflective of the California economy. The Commission was to report its findings to the Governor and legislature on or before September 20, 2009. As noted above, as of September 25, 2009, the final report has not been released.

The key guiding principals of the Commission were to:

- Establish a 21<sup>st</sup> century tax structure that fits with the State's 21<sup>st</sup> century economy;
- Stabilize State revenues and reduce volatility;
- Promote the long-term economic prosperity of the State and its citizens;
- Improve California's ability to successfully compete with other states and nations for jobs and investments;
- Reflect principles of sound tax policy including simplicity, competitiveness, efficiency, predictability, stability, and ease of compliance and administration; and
- Ensure that tax structure is fair and equitable.

Governor Schwarzenegger is expected to call a special session of the Legislature to address the Commission's findings.

## **Summary**

In general, the anticipated report will contain three sections:

1. Revenue Related Changes;
2. Possible Tax Law Changes to the Constitution or via Initiative Process; and
3. Revenue and Non-Revenue Areas of Reform.

Among the new or revised tax and revenue recommendations anticipated are:

- Reduce the personal income tax;
- Eliminate the corporation tax;
- Eliminate the State general purpose sales tax;
- Establish business net receipts tax;
- Initiate new rainy day reserve fund; and
- Institute tax appeals dispute resolution.

We have indicated below some of the draft recommendations in these areas:

### Income Tax

Under the plan, the State's current income tax rates and deductions would be replaced as follows:

- Two rates: 2.75 percent for annual incomes up to \$28,000 single/\$56,000 joint; 6.5 percent above those levels;

- Standard deduction of \$22,500 single/\$45,000 joint; and
- Itemized deductions for mortgage interest, property tax, and charitable contributions.

#### Corporation and Sales Tax

It is anticipated there will be a recommendation to eliminate the sales and corporate taxes which would be replaced by a single new business levy that would spread the burden at a rate of about 4 percent and would include service professions. The corporation and sales tax would be replaced by the Business Net Receipts Tax (BNRT), which would incorporate the following:

- Business gross receipts from all sources less purchases from all other businesses times rate;
- Application to all businesses doing business in California; and
- Phase-in of BNRT rate, increasing over the phase-in period.

#### Rainy Day Reserve Fund

- Increase the target for the reserve
  - From 5 percent of revenues to 12.5 percent of revenues; and
  - Require revenues above 10-year trend be deposited in the reserve.
- Restrict the Governor's ability to suspend transfers into the reserve
  - Transfers into reserve could only be suspended when revenues are insufficient to provide spending at prior year's level adjusted for changes in population and inflation.
- Create more stringent controls for the withdrawal of reserve funds. Reserve funds could only be used for:
  - Natural disasters; and
  - To maintain spending at prior year's level adjusted for changes in population and inflation.

#### Tax Appeals Tribunal Proposal

- Create an independent body with tax expertise to resolve disputes between the State and taxpayer.
- The taxpayer should be able to appeal for a ruling from the independent tribunal prior to having to pay the tax bill in question.

These draft recommendations have already generated wide and diverse comments in the news media. Clearly, given the subject matter of the Commission's work, the final recommendations may prove controversial and could have significant impacts as referenced in your Board's instruction, including impacts to County revenues, employees and the business community, particularly small businesses. Once the final report is issued, we will work with other departments to conduct a more thorough review of the final recommendations and keep your Board advised.

Each Supervisor  
September 25, 2009  
Page 4

Please let me know if you have any questions, or your staff may contact Martin Zimmerman at 213.974.1326 or [mzimmerman@ceo.lacounty.gov](mailto:mzimmerman@ceo.lacounty.gov).

WTF:ES:MKZ  
FC:JH:ef

c:     Executive Officer, Board of Supervisors  
        Acting County Counsel  
        Director of Internal Services  
        Acting Director of Personnel  
        Director, Small Business Commission